INFORMATION BULLETIN

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Announced Improvement to the Tax Credit for Retirement Income Brought Forward

The tax system grants tax relief to low or middle-income individuals receiving certain types of retirement income. This tax relief, which consists of a non-refundable tax credit, reduces with family income.

The maximum amount on which the tax credit is calculated for a year corresponds to the total of the amounts – for a person living alone, with respect to age and for retirement income – that are applicable to an individual for the year, to which must be added, if need be, the corresponding amounts his eligible spouse may receive.[1]

This maximum amount must be reduced by 15% for each dollar of a household's family income that exceeds the reduction threshold applicable for the year. The amount thus reduced is converted at a rate of 20%, into a non-refundable tax credit that may be split between the spouses, if applicable.

The retirement income giving rise to this tax credit includes payments in respect of a life annuity under a pension plan, annuity payments under a registered retirement savings plan or a deferred profit sharing plan and payments from a registered retirement income fund. However, it does not include benefits received under the Old Age Security Act – the old age security pension, the spouse's allowance or the guaranteed income supplement – or the retirement pension received under the Act respecting the Québec Pension Plan.

Prior to 2007, the maximum amount of retirement income that could be considered for the purposes of calculating the tax credit had never exceeded $1 000. This maximum amount was raised by $500 following the 2007-2008 Budget Speech, from $1 000 to $1 500 beginning in 2007. Thanks to this increase, low or middle-income pensioners now receive an annual tax reduction of up to $600 if they live as a couple and up to $300 otherwise.

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1 In general, an eligible spouse of an individual is the person who is his spouse at the end of the year for which the tax credit is claimed and who, at that time, does not live apart from the individual or, where the individual does not have a spouse at the end of the year, the last person who was, during the year, his spouse, if such person died during the year and if she was, at the time of her death, the spouse of the individual and did not live apart from him.

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Moreover, to further lower the tax burden on low or middle-income pensioners, it was announced, in the March 13, 2008 Budget Speech, that the maximum amount of retirement income used in the calculation of the tax credit would rise from $1 500 to $1 750 per individual for 2009 and from $1 750 to $2 000 as of 2010. In addition, to protect the maximum amount of retirement income from inflation, it was announced that the amount of $2 000 would be automatically indexed each year as of 2011.

In view of the current global economic context, the increase to $2 000 of the maximum amount of retirement income will be brought forward by one year to better protect the standard of living of low or middle-income pensioners. More specifically, the maximum amount of retirement income will rise from $1 500 to $2 000 in taxation year 2009 and, as of taxation year 2010, will be automatically indexed each year on the basis of the index used to index the main parameters of the personal tax system.

The following example illustrates the tax reduction that may be available to a household whose spouses are at least age 65, have eligible retirement income of at least $2 000 and family income exceeding the reduction threshold applicable for the year[2] by $12 000.

Illustration of the improvement to the tax assistance granted to a couple of pensioners
(2008 and 2009)

		2008		2009		
				Before this bulletin		After this bulletin
Amount with respect to age[1] (spouse # 1)		$2 200		$2 250		$2 250
Amount with respect to age[1] (spouse # 2)	+	$2 200	+	$2 250	+	$2 250
Amount for retirement income (spouse # 1)	+	$1 500	+	$1 750	+	**$2 000**
Amount for retirement income (spouse # 2)	+	$1 500	+	$1 750	+	**$2 000**
Total of amounts giving rise to the tax credit	=	$7 400	=	$8 000	=	$8 500
Reduction of: 15% x $12 000	-	$1 800	-	$1 800	-	$1 800
Eligible amount after reduction	=	$5 600	=	$6 200	=	$6 700
Tax credit conversion rate	x	20%	x	20%	x	20%
Tax credit		**$1 120**		**$1 240**		**$1 340**

1 Following the 2008-2009 Budget Speech, the amount with respect to age became subject to automatic annual indexing as of January 1, 2009.

2 For the 2008 taxation year, the reduction threshold is $29 645, while it will be $30 345 for the 2009 taxation year.

For information on the issue dealt with in this information bulletin, contact the Secteur du droit fiscal et de la fiscalité at 418 691-2236.

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